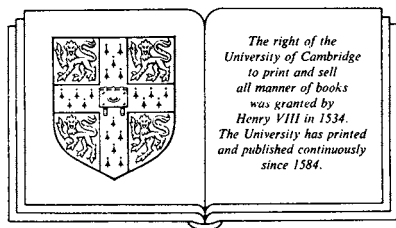


MERCHANT ENTERPRISE IN BRITAIN

From the Industrial Revolution to World War I

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Introduction: approaches and concepts

During the course of the last few years the period of British history conventionally known as the Industrial Revolution has lost some of its earlier significance as a watershed period. No doubt there is an element of conditioning by later twentieth-century experience in this attitude, for as British economic growth has looked less impressive compared with some of its competitors, so its interpreters have sought for the less spectacular and more evolutionary elements in its development, including the experience of earlier centuries. The 'revolutionary' feature of British economic and social history was taken to be the dramatic growth of the 'great staple' industries of last century – textiles, iron and coal – and their social consequences, and historians showed little interest in what had happened elsewhere in the economy, unless it was related to these major themes. The recent revisions, in suggesting more gradual growth in the old staples, has also served to rekindle interest in some of the continuities of economic and social life that were more taken for granted by contemporaries. Not the least is the traditional British interest in trade and finance.

It must be admitted that econometric measures of the changing structure of the British economy in the Industrial Revolution period, though exhibiting impressive statistical skill, can be no more than 'controlled conjectures'. Moreover, the bulk of the data processed is still drawn from the traditional industries, with little serious attempt to measure change in the service sectors of the economy independently.¹ Certainly the attempts to make independent measures of the service sector, and particularly of commerce and finance, though still in the pioneer stages, have produced more solid results. The most striking is that garnered by Clive Lee from Inland

¹ N. F. R. Crafts, *British Economic Growth during the Industrial Revolution* (Oxford 1985). J. Hoppit, 'Counting the Industrial Revolution', *Econ. Hist. Rev.* XLIII (1990).

Table 0.1. *Index of English regional income per head based on income tax (1812 to 1879-80A) then on inhabited house duty (1879-80B to 1911-12)*

	1812	1859/60	1879-80A	1879-80B	1911/12
North West	100	100	100	100	100
South East	382	122	147	240	331
West Midlands	102	89	87	80	94

Source: extracted from C. H. Lee, *The British Economy since 1700. A Macroeconomic Perspective* (Cambridge 1986) Table 7.3.

Table 0.2. *Occupations of British millionaires and half-millionaires as a percentage of all non-landed wills in the groups*

	1820-39	1840-59	1860-79	1880-99	1900-19
<i>Millionaires</i>					
in manufacturing	25	40	41	38	17
in commerce and finance	25	60	55	38	54
<i>Half-millionaires</i>					
in manufacturing	21	33	33	36	37
in commerce and finance	63	58	57	44	48

Source: extracted from W. D. Rubenstein, *Men of Property. The Very Wealthy in Britain since the Industrial Revolution* (1981) Tables 3.6, 3.7.

Revenue returns (Table 0.1). The North West region, which comprises Lancashire and the adjacent counties, has been widely regarded as the home of the factory system and hence of British industrialisation, but on this measure it never succeeded in catching up with the South East, essentially London and the Home Counties and the traditional focus of trade and finance, though of course it always supported some industries. The West Midlands, widely thought of as the other centre of British industrial enterprise, evidently fared even worse. W. D. Rubenstein's analysis of British wealth (Table 0.2) shows that more fortunes were won in commerce and finance than in manufacturing industry as the century advanced. Nearly all the millionaires and half-millionaires in trade and finance worked in the London area.

Without entering into further detail at this stage, it is already clear that myopic concentration on this history of British industry in the

provinces has produced a distorted economic history. The British economy had (and still has) twin pillars for its support, the wealth accumulated in trade, finance and urban estate in the metropolitan area and Home Counties easily balanced by that generated in the Midlands and North. Though the history of the mercantile side is still relatively unexplored territory, at any rate in the nineteenth century, reconnaissance and surveys have produced a number of very suggestive ideas. Some of the more important of these are briefly reviewed in this Introduction.

THE MERCHANT'S FUNCTIONS

In common parlance a merchant can be almost anyone who buys and sells goods, but such indiscriminate usage is much too wide for manageable research for it must include pedlars, shopkeepers, wholesalers, market stall holders and a host of other traders. Commercial usage was originally much more specific but, because commercial functions changed substantially over the period covered by this book, it is not possible to offer precise definitions to cover the complete time span. Changing functions will be examined as they arise; at this stage it will be sufficient to establish a convention to clear the way for later analysis. In this book merchants are taken to be entrepreneurs engaged in foreign (overseas) commerce as wholesale traders. It is appreciated that Britain had a large and growing domestic seaborne trade in the eighteenth and nineteenth centuries (such as the shipping of coal from Tyneside to London, of copper from Cornwall and Anglesey to the main ports and of grain from Ireland) but this must be left to another volume.² Such demarcation of the ground must appear at first sight to conflict with the inclusion of the so-called 'home trade houses' (Chapter 6), but it will be seen that these merchant firms had important overseas business from their earliest years and are an outstanding feature of mercantile development in the period.

Definition of the sphere of merchant activity does not of course prescribe what they did. Apprenticeship saw trainee merchants keeping accounts for their principals, attending to customers, and busy at the quayside keeping tally of incoming and outgoing cargoes. Later they might serve as a supercargo on ships sailing abroad or

² For a summary see J. H. Clapham, *An Economic History of Modern Britain. The Early Railway Age* (1926) pp. 233-62.

represent their firms in foreign markets. But a successful merchant gave little time to such matters for much of his buying and selling was done through trusted correspondents abroad, while specialist brokers stood ready to serve him in his home port. The one thing he could not delegate was the giving of credit and maintenance of his financial liquidity. The merchant's capital was very largely tied up in stock and credits to customers, and his greatest problem was maintaining cash flow. The pivotal position of the merchant, that is to say, was ultimately based on close financial control.³ This continued to be true as the general merchant of the eighteenth century gave way to the commission merchant of the nineteenth century, and as manufacturers became merchants and merchants extended to manufacturing.⁴ This key point must justify the considerable space devoted to finance and credit in any study of mercantile enterprise.

Some pioneer studies of British trade have devoted a lot of space to examining the differences between the functions of merchants, factors (or commission merchants) and brokers.⁵ The functions appear quite distinct and logical: merchants traded on their own account while factors were agents who handled commodities for overseas suppliers and domestic or overseas customers but did not as a rule handle the goods. In practice the functions of all three regularly overlapped and it was often a matter of convention whether a firm would call itself one or the other. The present book concentrates on the actual activities of firms rather than the conventional descriptions they often used to describe themselves.

BRITISH DOMINATION OF WORLD TRADE

Throughout the nineteenth century Britain was much the world's largest trading nation, a remarkable achievement considering the huge (tenfold) increase in trade in the period. The available data show that, although Germany, Russia and Belgium improved their relative positions in Europe (the principal growth area), Britain was still top on the eve of World War I (Table 0.3). American industrial production overtook that of Britain in the 1890s but her share of

³ J. M. Price, 'What did Merchants do? Reflections on British Overseas Trade 1660-1790', *Jnl Econ. Hist.* XLIX (1989). ⁴ See below, Ch. 2.

⁵ R. B. Westerfield, *Middlemen in English Business 1660-1720* (Yale 1915) p. 349ff. N. S. Buck, *The Development of the Organisation of Anglo-American Trade 1800-1850* (Yale 1925) Ch. 2.

Table 0.3. *Relative share of six leading European countries' exports in the European total, 1830-1910 (per cent)*

	1830	1860	1890	1910
United Kingdom	27.5	29.8	26.6	23.7
France	15.9	19.2	15.3	13.4
Germany	—	18.4	17.4	20.4
Russia	7.9	5.6	8.3	8.9
Belgium	2.9	4.0	6.1	7.3
Austria-Hungary	4.7	5.8	6.5	5.6

Source: extracted from Paul Bairoch, *Commerce extérieure et développement économique de l'Europe au XIX^e siècle* (Paris 1976) p. 77. The data for 1830 is approximate, that for 1860-90 based on three year averages.

world trade remained much smaller down to World War I.⁶ In the absence of any overall data for east-west trade in the period, statistics of the traffic through the Suez Canal appear to offer an approximate index of the distribution of trade between various western nations and the Far East. In 1880 British ships made up 80 per cent of the total gross tonnage through the Canal, in 1890 76 per cent and 1910 62 per cent, but these figures dwarfed all rivals. In 1910 the German share had risen to 16 per cent but France and Holland were only 5 per cent each and Austria-Hungary 4 per cent. Much of US imports from the east went through Britain.⁷ Moreover the global importance of Britain in trade is understated by these figures inasmuch as the finance of world trade was orchestrated in London and sterling was the main currency of international finance.

British supremacy was not based on the same factors through the period. For the first three-quarters of the eighteenth century it was largely founded on the rapidly developing 'Atlantic economy' (the trade with British colonies in North America); between 1700 and 1773 the trade to America and Africa multiplied 7.75 times while that to continental Europe increased only 1.13 times. The American War of Independence dislocated this trade but when peace was restored the upward trend was quickly resumed. An overlapping phase of development appeared during the early period of the British

⁶ B. R. Mitchell and P. Deane, *Abstract of British Historical Statistics* (Cambridge 1962) Table xi.3. R. M. Robertson, *History of the American Economy* (third edn, New York 1973) p. 364.

⁷ S. Nishimura, *The Decline of Inland Bills of Exchange* (Cambridge 1971) esp. Table 15. M. E. Fletcher, 'The Suez Canal and World Shipping 1867-1914', *Jnl Econ. Hist.* xviii (1958).

Table 0.4. *Geographical distribution of UK exports and imports
1785-1845 (per cent)*
(1785-1815 England, Scotland and Wales only)

	1785	1805	1825	1845
<i>Europe</i>				
exports	46.9	44.2	46.1	44.4
imports	43.8	45.8	40.6	36.8
<i>N. America</i>				
exports	25.8	26.1	18.3	16.5
imports	7.4	10.1	16.0	23.9
<i>Latin America and West Indies</i>				
exports	10.3	19.7	22.3	14.9
imports	22.5	27.0	20.5	13.2
<i>Asia and Near East</i>				
exports	12.8	6.9	11.6	19.8
imports	25.6	16.3	21.4	19.4
<i>Africa and Australia</i>				
exports	4.2	3.1	1.7	4.4
imports	0.7	0.7	1.5	6.6

Source: calculated from Ralph Davis, *The Industrial Revolution and British Overseas Trade* (Leicester 1979) Tables 38-40. The data represent an average of three years i.e. 1784-6, 1804-6, 1824-6. Exports include re-exports. The geographical sectors are assembled to harmonise with those of Paul Bairoch in Table 0.5.

Industrial Revolution when the export of textiles (and especially cottons) increased rapidly, and from the beginning of the nineteenth century to the mid-1840s cottons represented 40 to 50 per cent of all British exports. The greatest impact was initially on the European market, which took around 60 per cent of cotton exports at the end of the Napoleonic War (1815) and 30 per cent in 1855 (Table 0.4).⁸

A third phase began as Europe and the United States responded to British industrialisation by tariffs and adaptation to the new techniques of production. As ocean freight rates and marine insurance rates declined it became economical to draw bulk commodities (basic foodstuffs and raw materials) from distant continents and so generate exchange there. British textiles and other manufactured goods were increasingly directed to markets in the Middle East, Latin America, India, China and the Far East

⁸ R. Davis, *The Industrial Revolution and British Overseas Trade* (Leicester 1979) pp. 13-14.

generally; of these destinations India proved much the most important. By 1910 these export markets had become more important than those of Europe and North America (Table 0.5). From 1845 British law placed no restrictions on the export of machinery, and capital goods began to appear a significant component of exports. In the main period of British industrial expansion (1780s–1870s), imports of foreign manufacturers were pretty well eliminated in favour of the cheaper (and often better) home produced goods so that British trade became very largely a business of exporting manufactures in exchange for foodstuffs and raw materials. Inevitably the industrialisation of the United States, Germany and France led to growing imports of manufactured goods from these countries (particularly as Britain was wedded to free trade), but the shift to newer areas of trade served to sustain the opportunities of exporting industrial products in exchange for food and raw materials, with trade deficits with the new manufacturing countries bridged by surpluses in trade with new countries.⁹

This broad outline of British trade is already familiar from several authoritative studies and does not call for addition or refinement here. The aim of the present study is to identify the enterprise and organisation behind these changing patterns, and to examine the motivation and culture of mercantile enterprise from the Industrial Revolution to World War I. This is no easy task for, banks and insurance companies apart, the service industries have left even fewer records than those that produced goods, but patient synthesis of materials from sources in Britain and abroad reveals some interesting patterns suggesting new interpretations of British economic history.

THE INDUSTRIAL REVOLUTION AND MERCHANTS

In the period of British deindustrialisation in the 1980s it became fashionable for historians to contrast the varying fortunes of industry on the one side and commerce and finance on the other, treating the first as if it has been the victim of the prejudices of the second, a group that over a long historical period had represented power, wealth, privilege, metropolitan life and conservatism. The most popular exponent of this view is probably Martin J. Wiener's *English*

⁹ R. Davis, *Industrial Revolution*, p. 36. D. C. North, 'Ocean Freight Rates and Economic Development 1750–1913', *Jnl Econ. Hist.* xviii (1958). B. R. Mitchell and P. Deane, *Historical Statistics*, Ch. xi.

Table 0.5. *Geographical destination of UK exports and imports 1860-1910 (per cent)*

	1860	1880	1910
<i>Europe</i>			
exports	34.3	35.6	35.2
imports	31.0	41.4	45.1
<i>N. America</i>			
exports	16.6	15.9	11.6
imports	26.7	30.9	23.8
<i>Latin America and West Indies</i>			
exports	12.0	10.2	12.6
imports	10.1	6.1	9.1
<i>Asia and Near East</i>			
exports	25.7	25.4	25.4
imports	23.2	12.0	10.3
<i>Africa and Australia</i>			
exports	11.4	12.7	16.0
imports	9.0	9.6	11.7

Source: extracted from Paul Bairoch, *Commerce extérieure et développement économique de l'Europe au XIX^e siècle* (Paris 1976).

Culture and the Decline of the Industrial Spirit. Wiener has picked on the sporadic infighting between City financiers and provincial manufacturers and exaggerated it until he writes of the industrialist as 'the legatee of an aborted rebellion against the standards of "upper Englishry", standards that refused to take the processes of material production quite seriously'.¹⁰ He makes no distinction between finance and trade. However, the subject has been taken up by two British economic historians, Dr Cain and Professor Hopkins, in a major work of synthesis called 'Gentlemanly Capitalism and British Expansion Overseas', and here the emphasis is very much on the mercantile origins of the economic, social and political divide.¹¹

The two authors argue that the period 1688-1945 possesses a fundamental unity in British history in the sense that the growth of the service sector based on the City of London and the South East of England governed the course of the nation's economic policy, Britain's presence overseas (formal and informal empire) and the

¹⁰ M. J. Wiener, *English Culture and the Decline of the Industrial Spirit 1850-1980* (1985) p. 128.

¹¹ P. J. Cain and A. Hopkins, 'Gentlemanly Capitalism and British Expansion Overseas', *Econ. Hist. Rev.* xxxix (1986), xl (1987).

course of industrial development. Employment in the service sector enjoyed higher status and rewards than that in industry and it had easier access to political influence. Trade and finance were the basic components of the service sector so this interpretation must be central to the subject matter of this book. The immediate implication is that the traditional British economic history that sees the eighteenth and nineteenth centuries' landscape dominated by the peaks of industrial production, with merchants and traders providing outlets for manufacturing enterprise, must give way to a dualism in which merchants are clearly identified as central figures rather than satellites. The Cain and Hopkins thesis is clearly too wide, and covers too long a period, to be adequately considered in this book. However, it will be possible to assemble evidence on the changing relationship between industrialists and merchants, and between the provinces and City, which is not always the same thing. The culture of 'gentlemanly capitalism', taken in all its subtle dimensions, is also too large a concept to do justice to here, but examination of the extent to which immigrant merchant families retained their own identity and values which challenged the assumptions and conventions of the English 'Establishment' will assess the idea from another angle.

The idea of 'gentlemanly capitalism' is not far from that of an 'aristocratic bourgeoisie' debated by historians of City finance.¹² The starting point is often the passage in Walter Bagehot's *Lombard Street* (1873) where it is suggested that most City merchants 'have a good deal of leisure, for the life of a man of business who employs his own capital, and employs it nearly always in the same way, is by no means fully employed'.¹³ Bagehot saw this as the merchant's opportunity to become a director of one or more of the proliferating number of joint-stock companies (banks, insurance and railway companies), but Cain and Hopkins identify leisure as the means of drawing entrepreneurs away from manufacturing industry (which required more continuous and close attention) and providing time to promote political interests, while the 'aristocratic bourgeoisie' group focus on inclinations to an aristocratic life style and amateurishness in business, particularly in the second and subsequent generations.

Bagehot's comment was made almost in parenthesis and, could he

¹² S. D. Chapman, 'Aristocracy and Meritocracy in Merchant Banking', *Brit. Jnl Soc.* xxxvii (1986), Y. Casis, 'Merchant Bankers and City Aristocracy', *Brit. Jnl Soc.* (1988) and Chapman's reply. ¹³ W. Bagehot, *Lombard Street* (1973) 14th edn, pp. 240-5.

have anticipated the attention it has attracted in the twentieth century, he would surely have taken more care to emphasise that 'leisure' was a product of ample capital and mature experience, and necessary for an international trader who needed time to study the implications of the constant shifts in the trading scene. The idea was better expressed by Samuel Smith, the senior partner in the leading Liverpool cotton brokers Smith, Edwards & Co. and Liverpool partner of James Finlay & Co., one of the most successful of the merchant houses in trade with India. He was a Liberal Member of Parliament from 1882 until his death in 1906 and his words no doubt reflect some of the conventional wisdom of the merchant community at the period:

The head of a great firm dealing with foreign countries needs to be a statesman, an economist, and a financier, as well as a merchant. He must have the power of taking a bird's-eye view of the whole situation; like the general of an army, and like all great commanders, he must be able to discern talent, and promote it to high position. A first-class merchant does not burden his mind with a multitude of details, and *is always seemingly at leisure, while intent upon great issues*. Many such men have I known in the course of my life. The old British merchant as I remember him before the days of syndicates and limited liability, was often a truly great man, honourable, far-sighted, enterprising, yet withal prudent and cautious; simple in his life, and temperate in all things. The great fabric of British trade was built on these foundations.¹⁴ (author's italics)

Smith wrote nostalgically as an old man, fearing that the accepted norms of his best years were under threat, but there was some substance in his interpretation inasmuch as twentieth-century management school studies emphasise the necessity for chief executives to have time to reflect on major policy issues.

The three approaches to understanding mercantile business indicated here – that of 'gentlemanly capitalism', the 'aristocratic bourgeoisie' and what may be called Smith's chief executive – all appear plausible in their different ways and all claim a volume of empirical support. They are not mutually exclusive but their relative importance needs to be assessed as far as the evidence will allow. Each of their exponents offers one approach as a key to understanding mercantile performance in the period so must be carefully considered in the present study.

¹⁴ Samuel Smith, *My Life Work* (1902) p. 36. For a short account of Smith's career see Ch. 7.

COSMOPOLITAN CULTURE

Economists have traditionally taken only limited interest in entrepreneurship on the grounds that their subject is about rational choices in the production and distribution of goods and services rather than about dimensions of personality. However there is now an economic theory of the entrepreneur distinct from mainstream neoclassical economics and this recognises the relevance of culture to the varying performance of firms and of national economies. The contribution of the distinctive cultures of the US and Japan to their successive dominance of world trade this century is apparent to the most casual observer, and a moment's reflection suggests that it could be no less important in the historical context.

In a stimulating essay on 'Entrepreneurial Culture as Competitive Advantage', Mark Casson, one of the foremost exponents of entrepreneurial theory, has proposed the analysis of cultural attitudes to synthesise an entrepreneurial rating for various countries competing in international trade such as the UK, USA, Japan, Germany, France and Italy. The constituents of the different entrepreneurial cultures include factors such as scientific attitude, decision-making process and 'voluntarism' (attitudes to government) that are readily appreciated but practically impossible to measure, at any rate in an historical context. However, some simplified version adapted to our needs may clarify initial understanding.¹⁵

In the eighteenth and nineteenth centuries the theatre for the various trading cultures was the great cities and ports where merchants competed for trade. An international metropolis, as Fernand Braudel showed in his great work *Civilisation and Capitalism from the Fifteenth to the Eighteenth Centuries*, always attracts cosmopolitan immigrants, and as London succeeded Amsterdam as the dominant capitalist city of Europe, its trading community became a more heterogeneous mix of races than it had ever been.¹⁶ Of course, the origins of the migrants changed; in the eighteenth century it was mainly Huguenots, Dutch and Sephardic Jews, in the nineteenth century Germans (including German Jews), Greeks and Americans, especially those of Protestant Irish origin. Other distinctive merchant

¹⁵ Mark Casson, *Enterprise and Competitiveness. A Systems View of International Business* (Oxford 1990) Ch. 4.

¹⁶ F. Braudel, *Civilisation and Capitalism*, III *The Perspective of the World* (1981) pp. 30-1.

cultures were formed within Britain, particularly those of the religious dissenters and the Scots. Together these various ethnic and religious groups play a major part in the study of mercantile enterprise in Britain in the period. Their varying cultural attributes, so far as mercantile success was concerned, can be evaluated under such headings as moral probity, discipline, family and group loyalty, achievement ethic and the degree of inward or outward looking objectivity. (The last idea, which springs from Casson, refers to the extent to which the decision-making members of the firm give their priorities to some 'internal' ideal such as equality of rewards or participatory decision making, or to an aggressive stance towards rival firms and groups.) Sadly, we lack sufficiently detailed evidence to attribute any numerical valuation to these factors, but their importance will be considered from literary evidence.

The foreign merchants who flocked to London and its provincial rivals in the nineteenth century were not of course on the scale of the hordes that crossed the Atlantic to people the New World. Merchant strategy was planned and controlled carefully by men of capital to extend their international trading networks. Typically a trusted son or a clerk earmarked by his talent for early promotion to a partnership was sent to test his metal; not unusually it happened that the fortunate emissary succeeded beyond his father's (or principal's) most sanguine expectations, and before long London or Manchester exchanged places with the home town as centre and satellite of the family's trading activities. Old loyalties and new cultures were fused to create a supra-national outlook.¹⁷ Dr Charles Jones of Warwick University coined the phrase 'cosmopolitan bourgeoisie' for the international trading community that played such an important role in British life last century. He writes of a system 'in which ethnicity and nationality were not the primary determinants of status and where authority over enterprise remained quite decentralised without any apparent sacrifice of the growing economies to be derived from a centralised system of credit and information based upon the London market'.¹⁸ It is easy to accept that this had emerged by the middle of the nineteenth century, but more difficult to share his view, as we shall see, that the outlook of the international merchant houses was subverted by nationalism and imperialism before the end of the century. Much depended on

¹⁷ See below, Ch. 5.

¹⁸ Charles A. Jones, *International Business in the Nineteenth Century* (1987) p. 94.